



MESSAGE FROM THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

I am pleased to submit to the Congress, Secretary Rice, Secretary Rumsfeld, and the American people, the 11th Quarterly Report from the Special Inspector General for Iraq Reconstruction (SIGIR). SIGIR's mission, in simple terms, is to account for U.S. taxpayer funds invested in the reconstruction of Iraq. As this Report indicates, that accounting reveals a mixed story, with many successful projects completed while others fall short. This story underscores the importance of ensuring that the next phase of Iraq reconstruction stays on track. SIGIR remains committed to doing its part toward achieving that goal. Of significant note, the Department of State continues to provide exemplary support for the reconstruction mission and SIGIR's oversight of it.

The work for this Report was executed primarily in Iraq by the nearly 60 auditors, inspectors, and investigators who accomplish SIGIR's mission with diligence, skill, and integrity. The Report provides summaries of eight audits that focus on a variety of compelling issues and present a number of significant findings, including:

- Progress in the important Provincial Reconstruction Team program has been hampered by security problems and resource limitations.
- Overhead costs for design-build contractors were high in 2004 because of delays between the mobilization of these contractors and the actual start of construction work.
- A contractor sought to limit SIGIR's oversight this quarter by improperly using the proprietary information exception to the Federal Acquisition Regulation.

At the request of the Chairman of the Senate Armed Services Committee, SIGIR's auditors completed a review of logistics capability training for Iraq's Security Forces. SIGIR found that certain areas need improvement, particularly within the Ministry of Interior, before Iraq can be deemed ready to sustain its security forces.

SIGIR inspectors continued their visits across Iraq this quarter to assess the quality of construction activity. Some projects failed to meet expectations usually because of inadequate oversight. More frequently, however, SIGIR inspectors found projects that succeeded because management had executed effective quality assurance programs. The 65 inspection reports produced by SIGIR to date yield an unsurprising axiom: effective quality assurance and quality control programs at project sites produce success.

SIGIR investigators continued to make progress on a broad spectrum of cases this quarter. Although many of those cases arose from alleged wrongful conduct that occurred during the days of the Coalition Provisional Authority (CPA), an increasing number of new cases have their genesis in post-CPA activity. Of note, 25 SIGIR cases are at the Department of Justice under prosecution; two defendants pleaded guilty this quarter to fraud. SIGIR investigations initiated a new task force in early October to enhance efforts to root out fraud in Iraq with a variety of agencies participating, including the Federal Bureau of Investigation.

The Iraq relief and reconstruction program has entered the fourth quarter in this Year of Transition. Section 1 of the Report contains SIGIR's observations about this development, emphasizing several urgent matters that require action:

- Security must be improved in Baghdad for reconstruction to progress.
- Iraq's ministries must better execute their capital budgets.
- The ministries' collective governance capacity must be enhanced.

- The International Compact for Iraq must energize broad donor support for Iraq's further relief and reconstruction.

Section 2 of this Report provides SIGIR's sector-by-sector analyses of reconstruction; Section 3 summarizes SIGIR's audits, inspections, and investigations; and Section 4 provides reporting on other agencies' oversight activity.

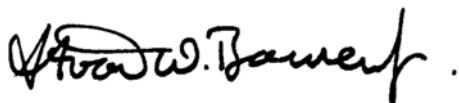
SIGIR is working closely with the Department of Defense's Business Transformation Agency (BTA), created by Deputy Secretary of Defense Gordon England and led by Deputy Undersecretary of Defense Paul Brinkley. This extremely important endeavor aims to catalyze private sector development in Iraq through international contracting. The strategy for success in Iraq has a significant economic component, and the BTA promises to be a big part of that solution.

The John Warner National Defense Authorization Act, which became law this quarter, expanded SIGIR's mandate and defined an end-date for SIGIR's oversight mission. The Act states that, in addition to its existing jurisdiction, SIGIR now has oversight of all FY 2006 funds for Iraq reconstruction. Further, the Act provides that SIGIR's oversight role will terminate on October 1, 2007, followed by a three-month transition of operations to other inspectors general. SIGIR and the inspectors general of the Department of State, Department of Defense, and the U.S. Agency for International Development will collaborate on a transition plan, which must be submitted to the Congress by April 2007.

I am gratified to report that on October 24, 2006, the President's Council on Integrity and Efficiency awarded SIGIR the *Gaston L. Gianni, Jr. Better Government Award*. SIGIR was given the award "for demonstrating determination and courage in providing independent oversight and unbiased review of the United States' reconstruction efforts in Iraq. SIGIR's efforts greatly increased the public's confidence in government by detecting fraud, waste, and abuse, while also providing recommendations on policies to promote economy, efficiency, and effectiveness in the reconstruction of Iraq. SIGIR continues to perform its mission under difficult and dangerous circumstances, exemplifying the highest ideals of government service as envisioned by the tenets of the Inspector General Act and the values of their mission: integrity, honesty, and dedication."

I was proud to accept this award on behalf of all the dedicated members of the SIGIR team in Baghdad and Arlington, who earned this well-deserved recognition through their continued professionalism, productivity, and perseverance.

Submitted October 30, 2006.

A handwritten signature in black ink, reading "Stuart W. Bowen, Jr." with a stylized flourish at the end.

Stuart W. Bowen, Jr.